

**NILES DISTRICT LIBRARY**

**NILES, MICHIGAN**

**FINANCIAL STATEMENTS**

**Year ended September 30, 2008**

**NILES DISTRICT LIBRARY**  
**NILES, MICHIGAN**

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**NILES DISTRICT LIBRARY**  
**NILES, MICHIGAN**

**BOARD OF TRUSTEES**

<b>Gloria Cooper</b>	<b>-</b>	<b>President</b>
<b>Rolla Baumgartner</b>	<b>-</b>	<b>Vice-President</b>
<b>William Landgraf</b>	<b>-</b>	<b>Secretary</b>
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<b>Sally Ginter</b>	<b>-</b>	<b>Trustee</b>



SCARPONE & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

November 7, 2008

Members of the Library Board of Trustees  
Niles District Library  
Niles, Michigan

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major governmental funds of Niles District Library as of and for the year ended September 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Niles District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Niles District Library as of September 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2008 on our consideration of Niles District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of testing of internal controls over financial reporting and compliance and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Scarfone & Co., P.C.*

## NILES DISTRICT LIBRARY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

#### Mission and Organizational Structure

The Library's mission is to provide our community with access and guidance to resources which inform, entertain and enrich. The Library is governed by an eight member Board of Trustees. Four trustees are appointed by the City of Niles and four by the Township of Niles. The Board has exclusive control over the expenditure of all monies collected to the credit of the Library fund. The Library Director handles the day-to-day management of the Library, including financial transactions, at the discretion of and under the direction of the Library Board.

#### Overall Financial Position

The financial statements indicate that the Library has cash assets of \$557,029 and \$685,282 in certificates of deposit, for a total of \$1,242,311 in assets at the close of the fiscal year, compared to \$1,221,689 at the close of the previous fiscal year. Expenditures for the fiscal year exceeded revenues by \$1,336. The Library's reserve cash assets and investments (certificates of deposit) are adequate to ensure the financial stability of the Library.

#### Operating Fund Budget vs. Actual

Actual expenditures and revenues in the general operating fund were close to the amounts projected in the annual budget.

	<u>Budgeted</u>	<u>Actual</u>	<u>Percent of Difference</u>
Expenditures	\$ 1,180,092	\$ 1,186,215	0.52%
Revenues	1,118,997	1,130,493	1.03%

#### Influencing Factors

On November 3, 2007, the Board held a special meeting to discuss the financial future of the Library. The meeting culminated in the Board instructing the Director, Nancy Studebaker, to develop proposals for reducing spending and increasing revenue. The proposals approved by the Board in the following months included:

- Closing the Library on the Friday and Saturday following Thanksgiving in 2007.
- Closing the Library between Christmas 2007 and New Years 2008.
- Freezing the wages for the 2009 fiscal year.
- Increasing overdue fines for all books, magazines and audiobooks to fifteen cents per day.
- Reducing hours of operation for the local history room.
- Increasing the charge for use of the community room by outside organizations.

## NILES DISTRICT LIBRARY

### MANAGEMENT'S DISCUSSION AND ANALYSIS-CONCLUDED

September 30, 2008

#### Revenues

The Library's primary revenue sources continue to be real property tax and penal fines. In fiscal year 2008 these two sources accounted for 84% of the Library's revenues. Real property tax revenues increased by 2% while penal fines increased by 3% from fiscal year 2007.

Overall revenues from all sources in fiscal year 2008 were 0.1% lower than fiscal year 2007. This reduction is attributable, in part, to the fact that the Library received two significant grants in fiscal year 2007, totaling \$26,500. Fiscal year 2008 revenues are 2% higher than fiscal year 2007 revenues without the grant funds included.

The following revenues received in fiscal year 2008 are not expected to continue in coming years. The Niles Star made monthly donations of just under \$5,800 to the Library to support "Gloria's Place". The Library received two checks from Southwestern Michigan Library Cooperative totaling \$7,638.

#### Expenditures

Personnel expenses continue to account for the largest portion of the Library's budget. In fiscal year 2008 wages and benefits accounted for 62% of the Library's expenses.

Expenditures on materials to support the Library's core service of providing patrons with books, videos, audio-books and magazines increased about 8%. The Library spent approximately \$126,000 on Library materials compared to \$117,000 last year. In addition, the Library spent just over \$10,000 from the gift and memorial line item for the purchase of materials.

The following are some of the significant expenses during fiscal year 2008 which are not expected to continue in fiscal year 2009. In January 2008, the Library paid off the lease on a Lanier copier at a cost of approximately \$8,600. In May 2008, the Library's telephone system ceased operating and a new telephone system was purchased and installed at a cost of approximately \$7,200. The Library began using a new automation system on October 6, 2008. Expenses associated with the implementation of the new system came to just under \$31,000.

#### Debt

The Library continues to make twice annual payments on a 1998 Building Authority Bond, which is scheduled to be repaid by the year 2018. The Library has no other significant outstanding debt.

#### Contacting the Library's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances. If you have any questions about this report or need additional information you may contact the Library Director, Nancy Studebaker.

NILES DISTRICT LIBRARY  
GOVERNMENTAL FUNDS BALANCE SHEET  
AND  
STATEMENT OF NET ASSETS

September 30, 2008

	Operating Fund	Other Funds	Total	Adjustments (Note K)	Statement of Net Assets
<b>ASSETS</b>					
Cash and cash equivalents	\$ 425,455	\$ 131,574	\$ 557,029	\$ -	\$ 557,029
Investments	345,158	340,124	685,282	-	685,282
Interest receivable	1,418	2,627	4,045	-	4,045
Taxes receivable	3,069	-	3,069	-	3,069
Due from other funds	46,150	-	46,150	-	46,150
Capital assets, net of accumulated depreciation	-	-	-	1,749,077	1,749,077
<b>TOTAL ASSETS</b>	<b>\$ 821,250</b>	<b>\$ 474,325</b>	<b>\$ 1,295,575</b>	<b>\$ 1,749,077</b>	<b>\$ 3,044,652</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 7,847	\$ -	\$ 7,847	\$ -	\$ 7,847
Accrued payroll, taxes and withholdings	32,843	-	32,843	-	32,843
Accrued interest	-	-	-	9,904	9,904
Due to other funds	-	46,150	46,150	-	46,150
Long-term liabilities:					
Bonds payable	-	-	-	415,000	415,000
Accumulated employee benefits	-	-	-	16,280	16,280
	40,690	46,150	86,840	441,184	528,024
<b>FUND BALANCES/NET ASSETS</b>					
Fund balances, reserved, reported in					
Reserve fund	-	238,982	238,982	(238,982)	-
Legacy fund	-	5,179	5,179	(5,179)	-
Capital projects	-	184,014	184,014	(184,014)	-
Fund balances, unreserved	780,560	-	780,560	(780,560)	-
	780,560	428,175	1,208,735	(1,208,735)	-
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 821,250</b>	<b>\$ 474,325</b>	<b>\$ 1,295,575</b>		
<b>Net Assets</b>					
Invested in capital assets					1,324,173
Restricted					428,175
Unrestricted					764,280
<b>TOTAL NET ASSETS</b>					<b>\$ 2,516,628</b>

See accompanying notes to basic financial statements.



**NILES DISTRICT LIBRARY**

**GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES AND STATEMENT OF ACTIVITIES**

For the year ended September 30, 2008

	<u>Operating Fund</u>	<u>Other Funds</u>	<u>Total</u>	<u>Adjustments (Note J)</u>	<u>Statement of Activities</u>
<b>REVENUES:</b>					
Local taxes	\$ 749,568	\$ -	\$ 749,568	\$ -	\$ 749,568
Penal fines	244,488	-	244,488	-	244,488
State-shared revenues	42,587	-	42,587	-	42,587
Interest and dividends	24,030	15,587	39,617	-	39,617
Charges for services	26,697	-	26,697	-	26,697
Contributions and gifts	20,928	-	20,928	-	20,928
Copier revenues	12,935	-	12,935	-	12,935
Frazee Trust	-	38,799	38,799	-	38,799
Community room	1,340	-	1,340	-	1,340
Miscellaneous	7,920	-	7,920	-	7,920
<b>Total Revenues</b>	<b>1,130,493</b>	<b>54,386</b>	<b>1,184,879</b>	<b>-</b>	<b>1,184,879</b>
<b>EXPENDITURES:</b>					
Salaries	561,779	-	561,779	4,448	566,227
Payroll taxes and employee benefits	170,577	-	170,577	-	170,577
Professional fees	18,519	-	18,519	-	18,519
Building maintenance	62,545	-	62,545	-	62,545
Repairs and maintenance	17,456	-	17,456	-	17,456
Library materials	126,352	-	126,352	-	126,352
Supplies	14,036	-	14,036	-	14,036
Utilities	48,530	-	48,530	-	48,530
Communications	5,774	-	5,774	-	5,774
Postage	2,460	-	2,460	-	2,460
Programming	11,407	-	11,407	-	11,407
Staff development	4,802	-	4,802	-	4,802
Copy machine rental and supplies	6,497	-	6,497	-	6,497
Insurance	16,824	-	16,824	-	16,824
Capital outlay	52,579	-	52,579	(39,603)	12,976
Bond processing and handling fees	300	-	300	-	300
Debt service	51,232	-	51,232	(30,712)	20,520
Gift and memorial expenditures	10,100	-	10,100	-	10,100
Miscellaneous	4,446	-	4,446	-	4,446
Depreciation	-	-	-	68,352	68,352
<b>Total Expenditures</b>	<b>1,186,215</b>	<b>-</b>	<b>1,186,215</b>	<b>2,485</b>	<b>1,188,700</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(55,722)</b>	<b>54,386</b>	<b>(1,336)</b>	<b>(2,485)</b>	<b>(3,821)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In (Out)	84,949	(84,949)	-		
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>29,227</b>	<b>(30,563)</b>	<b>(1,336)</b>		
<b>Change in Net Assets</b>					<b>(3,821)</b>
<b>FUND BALANCES/NET ASSETS</b>					
Beginning of Year	751,333	458,738	1,210,071	1,310,378	2,520,449
End of Year	\$ 780,560	\$ 428,175	\$ 1,208,735	\$ 1,307,893	\$ 2,516,628

See accompanying notes to basic financial statements.

## **NILES DISTRICT LIBRARY**

### **NOTES TO FINANCIAL STATEMENTS**

**For the year ended September 30, 2008**

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of Niles District Library ("Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the significant policies adopted by the Library are as follows:

#### **REPORTING ENTITY:**

The Library's reporting entity includes all activities related to the operation of the Niles District Library. The Library receives funding from local and state government sources and must comply with the requirements of these funding source entities. However, the Library is not included in any other governmental "reporting entity" as defined by the GASB pronouncement. In addition, there are no component units as defined by GASB which are included in the Library's reporting entity.

#### **BASIS OF PRESENTATION:**

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) and Fund Financial Statements. The government-wide and fund financial statements are combined, with a reconciliation shown between them.

The Governmental Funds Balance Sheet and Statement of Net Assets and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities combines information about the reporting government as a whole and funds statements to report its financial position and the results of its operations.

The Operating Fund is the only major individual governmental fund. For fund financial statements, the accounts of the Library are organized on the basis of funds each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise each fund's assets, liabilities, fund balances, revenues and expenditures. The following is a description of the funds included in the accompanying basic financial statements:

**Operating Fund** - The Operating Fund accounts for revenues and expenditures of the Library not required to be accounted for in other funds.

**Reserve Fund** - The Reserve Fund accounts for the accumulation of resources related to ensuring uninterrupted Library service.

**Legacy Fund** - The Legacy Fund accounts for the revenues and expenditures related to particular functions or activities of the Library, including income from the Frazee Trust Fund Endowment.

**NILES DISTRICT LIBRARY**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

**For the year ended September 30, 2008**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED:**

**Debt Service Fund -** The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

**Capital Projects Fund -** The Capital Projects Fund accounts for the financial resources to be used for the acquisition of major capital expenditures.

**BASIS OF ACCOUNTING:**

The government-wide statements (the Statement of Net Assets and the Statement of Activities) are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements (the Governmental Funds Balance Sheet and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances) are prepared using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**BUDGETS AND BUDGETARY ACCOUNTING:**

The Library Director prepares the annual budget which is adopted by the Library Board of Trustees. Budget amendments are required to be approved by the Library Board of Trustees. Unexpended budget appropriations lapse at year end. The budget is adopted on the basis of accounting described above. Original budgets are all budget revisions are listed on the Library's web-site. There were no significant budget overruns during the year ended September 30, 2008.

**CASH AND CASH EQUIVALENTS AND INVESTMENTS:**

Pursuant to Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), the Library may invest funds in the following types of investments:

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution which are insured and which meet all criteria as depository of public funds.

Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and maturing no more than 270 days after date of purchase.

United States government or federal agency obligation repurchase agreements.

Bankers' acceptances of United States banks.

**NILES DISTRICT LIBRARY**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

**For the year ended September 30, 2008**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED:**

**CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONCLUDED:**

Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

Investment pools organized under the surplus funds investment pool act, 1982, PA 367, 129.111 to 129.118.

Mutual funds registered under the investment company act of 1940, title I of chapter 686.

Cash and cash equivalents are recorded at cost and include cash investments with an original maturity of three months or less.

**CAPITAL ASSETS:**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

**Government-wide Statements**

In the government-wide financial statements capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Leasehold improvements	50 years
Furniture and equipment	10-15 years
Computer equipment	5 years

The minimum capitalization threshold is any item with a total cost greater than \$2,500.

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

# NILES DISTRICT LIBRARY

## NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2008

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONCLUDED:

#### COMPENSATED ABSENCES:

It is the Library's policy to permit employees to accumulate earned but unused sick pay (to a maximum of 1,000 hours) and vacation pay benefits (to a maximum of 75 hours). There is no accrued liability for unpaid accumulated sick leave since the Library's policy does not allow for the payment of any amounts when employees separate from service with the Library. All vacation pay is accrued when incurred in the government-wide financial statements.

#### PROPERTY TAXES:

Property taxes are levied for Library operating purposes against properties within the Library's service area at a rate of 1.4842 mills.

#### ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### FUND BALANCES:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans and are subject to change.

### NOTE B - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consisted of the following at September 30, 2008:

Petty cash	\$ 100
Deposits in financial institutions	556,929
	<u>\$ 557,029</u>

The above deposits in financial institutions of \$556,929 were reflected in the accounts of the Library's financial institutions (without recognition of checks written but not yet cleared, or of deposits in transit) at \$577,215. Of that amount, approximately \$247,025 was covered by federal depository insurance coverage, approximately \$72,530 was held in a local units of government trust account, \$250,000 was covered by private depository insurance coverage, and \$7,660 was uninsured and uncollateralized.

On October 3, 2008, the United States Congress temporarily increased Federal Deposit Insurance Corporation (FDIC) deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. Using this increased coverage value, approximately \$399,443 was covered by federal depository insurance coverage, approximately \$72,530 was held in local units of government trust account, \$105,242 was covered by private depository insurance.

# NILES DISTRICT LIBRARY

## NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2008

### NOTE C - INVESTMENTS:

Investments at September 30, 2008 consisted of certificates of deposit in financial institutions of \$685,282. Of this amount, approximately \$352,974 was covered by federal depository insurance coverage and approximately \$332,308 was uninsured and uncollateralized.

Using the increased coverage value mentioned earlier, all certificate of deposits funds were covered by federal depository insurance coverage.

### NOTE D - CAPITAL ASSETS:

Capital asset activity for the Library's Governmental activities for the year ended September 30, 2008 was as follows:

	Balance September 30, 2007	Additions	Deletions	Balance September 30, 2008
Capital assets being depreciated:				
Leasehold improvements	\$ 2,024,024	\$ -	\$ -	\$ 2,024,024
Furniture and equipment	198,712	27,811	15,597	210,926
Computer equipment	130,632	11,792	-	142,424
	<u>2,353,368</u>	<u>39,603</u>	<u>15,597</u>	<u>2,377,374</u>
Accumulated depreciation:				
Leasehold improvements	373,463	45,892	-	419,355
Furniture and equipment	91,287	13,597	15,597	89,287
Computer equipment	110,792	8,863	-	119,655
	<u>575,542</u>	<u>68,352</u>	<u>15,597</u>	<u>628,297</u>
Net capital assets	\$ <u>1,777,826</u>	\$ <u>(28,749)</u>	\$ <u>-</u>	\$ <u>1,749,077</u>

### NOTE E - LONG-TERM DEBT:

General long-term debt consisted of the following at September 30, 2008:

4.75% - 4.80% 1998 Building Authority Bonds, with annual payments of \$35,000 to \$50,000 and semi-annual interest payments, final maturity April, 2018.	\$ <u>415,000</u>
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The principal reductions of general long-term debt for the years ending September 30th, are as follows:

Year Ended	Amount Due
2009	\$ 35,000
2010	35,000
2011	35,000
2012	40,000
2013	40,000
Thereafter	230,000
Total	\$ <u>415,000</u>

# NILES DISTRICT LIBRARY

## NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2008

### NOTE E - LONG-TERM DEBT - CONCLUDED:

The following is a summary of the changes in general long-term debt for the year ended September 30, 2008:

	Balance September 30, 2007	Additions	Deductions	Balance September 30, 2008
Bonds payable	\$ 445,000	\$ -	\$ 30,000	\$ 415,000

### NOTE F - FRAZEE TRUST FUND ENDOWMENT:

The Library is the sole income beneficiary of the Carl H. and Faye W. Frazee Niles Community Library Foundation Trust established in 1990. Wells Fargo Bank Indiana, N.A. is the Trustee of the Foundation, and manages the income and distributions of the endowment. The Foundation requires all income from the endowment to be distributed to the Legacy Fund of the Library. Distributions to the Library amounted to \$38,799 for the year ended September 30, 2008.

### NOTE G - INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at September 30, 2008 consisted of the following:

	Receivable Balance	Payable Balance
General Fund		
General Fund	\$ 46,150	\$ -
Capital Projects Fund	-	46,150
	\$ 46,150	\$ 46,150

### NOTE H - PENSION PLAN:

The Library has a defined benefit pension plan which provides retirement benefits to employees meeting eligibility requirements. The Library's defined benefit plan for its employees is administered through the Municipal Employees' Retirement System of Michigan (MERS). MERS is a statewide retirement plan that municipalities may adopt for their employees. Public Act 220 of 1996 of the State of Michigan provided MERS with the power to establish and amend the benefit provisions to Niles District Library.

MERS members shall contribute an amount varying from 0.00 percent to 10.0 percent of compensation, depending upon which contribution plan is selected. The Library is required to contribute at an actuarially determined rate, which is currently 4.72% of reported wages. For the year ended September 30, 2008, the contributions to the plan totaled \$21,748.

NILES DISTRICT LIBRARY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2008

NOTE I - ACCUMULATED EMPLOYEE BENEFITS:

Accumulated employee benefits represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library. The estimated liability as of September 30, 2008 is estimated to approximate \$16,280.

NOTE J - RISK MANAGEMENT:

The Library is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters. The Library maintains commercial insurance to insure potential significant losses. There have been no significant reductions in insurance coverage by the Library for the year ended September 30, 2008.

NOTE K - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference is a result of the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental funds balance sheet and statement of revenue, expenditures, and changes in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total fund Balances- modified accrual basis	\$ 1,208,735
Amounts reported in the Statement of Net Assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	1,749,077
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(9,904)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	
Bonds Payable	(415,000)
Accrued Employee Benefits	<u>(16,280)</u>
Net Assets (All Funds) - full accrual basis	\$ <u>2,516,628</u>



NILES DISTRICT LIBRARY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONCLUDED

For the year ended September 30, 2008

NOTE K - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS-CONCLUDED:

Net Change in Governmental Fund Balances - modified accrual basis	\$	(1,336)
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Amounts reported in the Statement of Activities are different because:

Capital outlays are reported as expenditures in the Statement of of Revenues, Expenditures, and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	39,603
Depreciation	(68,352)

Interest is reported as an expenditures when due in the funds; in the Statement of Activities interest is accrued on outstanding debt	712
--	-----

Repayment of bond principal are reported as an expenditure in the fund statements; in the Statement of Activities these payments reduce long-term debt	30,000
--	--------

Accrual for long-term employee benefits reported as an expenditure in the Statement of Activities, but not in the funds	<u>(4,448)</u>
--	----------------

Change in Net Assets (All Funds) - full accrual basis	\$ <u>(3,821)</u>
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**REQUIRED SUPPLEMENTARY INFORMATION**

**NILES DISTRICT LIBRARY**

**REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE**

**OPERATING FUND**

For the year ended September 30, 2008

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
<b>REVENUES:</b>				
Local taxes	\$ 738,000	\$ 745,000	\$ 749,568	\$ 4,568
Penal fines	235,000	235,000	244,488	9,488
State-shared revenues	18,000	42,397	42,587	190
Interest and dividends	26,000	27,000	24,030	(2,970)
Charges for services	19,800	26,500	26,697	197
Contributions and gifts	11,300	18,650	20,928	2,278
Copier revenues	11,500	12,000	12,935	935
Community room	1,200	1,450	1,340	(110)
Miscellaneous	-	11,000	7,920	(3,080)
	<u>1,060,800</u>	<u>1,118,997</u>	<u>1,130,493</u>	<u>11,496</u>
<b>EXPENDITURES:</b>				
Salaries	552,500	544,150	561,779	(17,629)
Payroll taxes and employee benefits	166,805	166,160	170,577	(4,417)
Professional fees	21,300	20,300	18,519	1,781
Building maintenance	61,500	66,250	62,545	3,705
Repairs and maintenance	23,400	22,800	17,456	5,344
Library materials	125,000	125,450	126,352	(902)
Supplies	14,800	11,350	14,036	(2,686)
Utilities	53,000	52,500	48,530	3,970
Communications	4,900	4,900	5,774	(874)
Postage	3,500	3,000	2,460	540
Programming	14,100	12,100	11,407	693
Refunds	5,000	-	-	-
Staff development	7,500	5,000	4,802	198
Copy machine rental and supplies	7,650	5,550	6,497	(947)
Insurance	18,000	16,850	16,824	26
Capital outlay	-	52,650	52,579	71
Bond processing and handling fees	-	-	300	(300)
Debt service	51,232	51,232	51,232	-
Gift and memorial expenditures	4,000	11,850	10,100	1,750
Miscellaneous	8,000	8,000	4,446	3,554
	<u>1,142,187</u>	<u>1,180,092</u>	<u>1,186,215</u>	<u>(6,123)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(81,387)</b>	<b>(61,095)</b>	<b>(55,722)</b>	<b>5,373</b>
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers in	31,000	77,150	84,949	7,799
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(50,387)</b>	<b>16,055</b>	<b>29,227</b>	<b>13,172</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>751,333</b>	<b>751,333</b>	<b>751,333</b>	<b>-</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 700,946</b>	<b>\$ 767,388</b>	<b>\$ 780,560</b>	<b>\$ 13,172</b>

See accompanying notes to basic financial statements.

## OTHER SUPPLEMENTAL INFORMATION

**NILES DISTRICT LIBRARY**  
**COMBINING BALANCE SHEETS**

**OTHER FUNDS**

September 30, 2008

	<u>Reserve Fund</u>	<u>Legacy Fund</u>	<u>Capital Projects</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 64,704	\$ 5,179	\$ 61,691	\$ 131,574
Investments	172,238	-	167,886	340,124
Interest receivable	2,040	-	587	2,627
<b>TOTAL ASSETS</b>	<b>\$ <u>238,982</u></b>	<b>\$ <u>5,179</u></b>	<b>\$ <u>230,164</u></b>	<b>\$ <u>474,325</u></b>
<b><u>LIABILITIES</u></b>				
Due to other funds	\$ -	\$ -	\$ 46,150	\$ 46,150
<b><u>FUND BALANCES</u></b>				
Fund Balances, reserved	\$ <u>238,982</u>	\$ <u>5,179</u>	\$ <u>184,014</u>	\$ <u>428,175</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>238,982</u></b>	<b>\$ <u>5,179</u></b>	<b>\$ <u>230,164</u></b>	<b>\$ <u>474,325</u></b>

See accompanying notes to basic financial statements.

# NILES DISTRICT LIBRARY

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

### OTHER FUNDS

For the year ended September 30, 2008

	<u>Reserve Fund</u>	<u>Legacy Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>REVENUES:</b>				
Interest and dividends	\$ 8,605	\$ 3	\$ 6,979	\$ 15,587
Frazee Trust	<u>-</u>	<u>38,799</u>	<u>-</u>	<u>38,799</u>
	8,605	38,802	6,979	54,386
<b>EXPENDITURES:</b>				
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	8,605	38,802	6,979	54,386
<b>OTHER FINANCING USES:</b>				
Operating transfers out	<u>-</u>	<u>(38,799)</u>	<u>(46,150)</u>	<u>(84,949)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES</b>	8,605	3	(39,171)	(30,563)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	230,377	5,176	223,185	458,738
<b>FUND BALANCES, END OF YEAR</b>	\$ <u>238,982</u>	\$ <u>5,179</u>	\$ <u>184,014</u>	\$ <u>428,175</u>

See accompanying notes to basic financial statements.

NILES DISTRICT LIBRARY

1998 BUILDING AUTHORITY BONDS

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS

For the year ended September 30, 2008

Year Ending September 30,	Principal April 1	Interest Requirements		Total Interest	Total Requirements
		April 1	October 1		
2009	\$ 35,000	\$ 9,904	\$ 9,904	\$ 19,808	\$ 54,808
2010	35,000	9,073	9,072	18,145	53,145
2011	35,000	8,241	8,241	16,482	51,482
2012	40,000	7,410	7,410	14,820	54,820
2013	40,000	6,460	6,460	12,920	52,920
2014	40,000	5,510	5,510	11,020	51,020
2015	45,000	4,560	4,560	9,120	54,120
2016	45,000	3,480	3,480	6,960	51,960
2017	50,000	2,400	2,400	4,800	54,800
2018	50,000	1,200	1,200	2,400	52,400
	<u>\$ 415,000</u>	<u>\$ 58,238</u>	<u>\$ 58,237</u>	<u>\$ 116,475</u>	<u>\$ 531,475</u>

See accompanying notes to basic financial statements.



**SCARPONE & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

November 7, 2008

Members of the Library Board of Trustees  
Niles District Library  
Niles, Michigan

We have audited the financial statements of the governmental activities, and the major governmental funds of Niles District Library as of and for the year ended September 30, 2008, and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Niles District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Niles District Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Niles District Library's internal control over financial reporting. Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Niles District Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Lincoln Township Public Library's financial statements that is more than inconsequential will not be prevented or detected by Niles District Library's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

#### Preparation of Financial Statements in Accordance with GAAP

##### Criteria:

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Library's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e. maintaining internal books and records), and (2) reporting financial statements, including the related footnotes.

##### Condition:

As is the case with entities of similar size, the Library has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. During our audit, there were adjustments (significant and non-significant) made to adjust the Library's ledger to the appropriate balances. These adjustments were determined by the Library's bookkeeper and our firm. Accordingly, the Library's ability to prepare financial statements in accordance with GAAP is based in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Library's internal control.

##### Cause:

This condition was caused by the Library's historical practice of outsourcing the preparation of its annual financial statements to the external auditors rather than to incur the time and the expense of obtaining the necessary training and expertise required for the Library to perform this task internally, based on its limited size.

##### Effect:

As a result of this condition, the Library's internal accounting records were initially misstated by amounts material to the financial statements. In addition, the Library lacks internal controls over the preparation of the financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible:

The Board of Trustees and management will be charged with evaluating the costs vs. the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and will need to determine if it is in the best interests of the Library to continue to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Niles District Library's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are a material weakness.

Other Matters:

As a part of our audit, we noted certain matters that we reported to the Members of the Board of Trustees in a separate letter dated November 7, 2008.

This report is intended solely for the information and use of the Library Board of Trustees, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Scarpone & Co., P.C.*



SCARPONE & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

November 7, 2008

Members of the Library Board of Trustees  
Niles District Library  
Niles, Michigan

In planning and performing our audit of the financial statements of Niles District Library as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

### Internal Controls

In connection with our audit, we made various inquiries of management concerning the Library's internal control structure. Specific matters coming to our attention during this review include the following:

#### Control Deficiency - Journal Entries:

Currently the bookkeeper prepares and makes all journal entries to the general ledger. Individual journal entries are not reviewed by personnel other than the bookkeeper.

**Recommendation:**

All journal entries should be reviewed by either the Director or the Treasurer of the Board. Once the entry is prepared and posted by the bookkeeper, the entry documents should be initialed or signed by both the bookkeeper and the person reviewing the entry. Documentation or reference to documentation supporting the journal entry should be maintained and attached to the journal entry paperwork.

**Control Deficiency - Year-end adjusting entries:**

Currently the bookkeeper does not prepare reversing entries for previous year's receivables or payables, nor does she tabulate or record year-end adjusting entries for such receivables and payables.

**Recommendation:**

Bookkeeper should post reversing entries for previous year's receivable or payables as well as prepare and post year-end adjusting entries for receivables and payables. These entries should be reviewed as stated in our first recommendation concerning journal entries.

**Control Deficiency - Mail receipts documentation:**

Currently the mail is opened, and processed by the bookkeeper. The funds received in the mail are not recorded in any type of ledger or log.

**Recommendation:**

If staffing numbers allow, the mail should be opened by two persons not involved in the bookkeeping function. All funds received in the mail should be recorded in a cash receipts journal. This journal should be used to confirm deposits when the bank deposits and bank reconciliation are prepared.

**Control Deficiency - Cash receipts and lack of separation of duties:**

Currently the bookkeeper opens the mail, prepares the bank deposits, takes the deposits to the bank, posts the receipts to the general ledger and prepares the monthly bank reconciliations.

**Recommendation:**

The different tasks associated with cash receipts should be separated as much as staffing allows. Ideally, each task should be completed and documented by a separate individual (i.e. The individual that prepares the bank deposit should not be the individual that takes the deposit to the bank). Finally, an individual with no previous contact with the cash receipt process should prepare the monthly bank reconciliations. Due to their work with the general ledger and cash signing duties, the bank reconciliations should not be prepared by either the Director or the bookkeeper.

**Control Deficiency - Excessive balance in petty cash account**

The starting cash register cash balance in the local history room is higher than the starting cash for both the circulation desk and the copier room.

**Recommendation:**

The starting cash register cash for the local history room should be reduced to \$40.00.

**Control Deficiency - Computer screens not password protected:**

During our audit field work it was noted that the computer screen for the bookkeeper did go to screen saver mode when left unattended, but no password was needed to return the screen to active mode.

**Recommendation:**

Even though the door to the bookkeeper's office locks automatically, the bookkeeper's computer should be set with a screen saver that activates whenever the computer is not used for a period greater than ten minutes. The screen saver should be set with password protection so that access to any open program is restricted. The bookkeeper should continue the practice of closing all computer programs whenever she leaves her office for an extended period of time.

**Control Deficiency - Lack of payroll verification:**

Currently the bookkeeper prepares the payroll for submission to the payroll company, and also posts the payroll to the general ledger. The Director signs the checks for those employees receiving payroll checks, but she does not review the payroll for those employees that use direct deposit.

**Recommendation:**

The Director should review the entire payroll report, including all individual payroll amounts. Once the payroll has been reviewed, the Director should date and initial or sign the payroll summary sheet.

**Control Deficiency - Various funds combined in accounting system**

All of the general ledger accounts for the various funds are combined as one company in the accounting software. This practice along with the software limitations, posts the year-end entries into one retained earnings account. In addition, the accounting software allows general journal entries to be posted to the retained earnings account, but the software does not allow for review of this account.

**Recommendation:**

Each of the fund accounts (capital, legacy, reserve and general operating) should each be set up as a different company in the accounting software. In addition, a separate retained earnings account that does allow for review should be established in each of the funds.

**Control Deficiency - Budgeted transfers not made**

It was determined that the budgeted transfer from the capital projects fund to the general operation fund was not made.

**Recommendation:**

Budget to actual expenditures reports should be reviewed on a monthly basis. Transfers to and from the various funds should be reviewed as a part of the budget reports.

**Control Deficiency - CD and interest amounts understated**

The value of two CDs were understated on the general ledger.

**Recommendation:**

The bookkeeper should receive a copy of all notices received regarding matured CDs, CD renewals and interest received.

**Other Matters**

We offer the following comments, which are informational in nature:

**Statements on Auditing Standards Nos. 104 to 111 - The Risk Assessment Standards**

The AICPA has issued Statements on Auditing Standards (SAS 104 to SAS 111) which have substantially affected the auditing process, effective for the audit of the financial statements of the Library for the year ended September 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards require:

- The auditor to obtain a deeper understanding of (1) the Library and its internal control, for the purpose of identifying the risks of material misstatement in the financial statements, and (2) what the Library is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement in the financial statements based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clear linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested significant professional time into the redesign of our audit procedures as it relates to the Library in order to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, and tailored to the unique environment for Michigan governmental units.

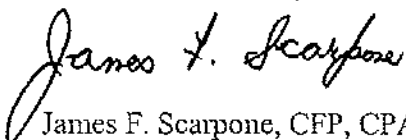
We appreciate and thank the Library's staff for their cooperation and assistance during this year's audit.

This letter is intended solely for the use of the Members of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

As always, should you have any questions, please don't hesitate to contact us.

Sincerely,

SCARPONE & CO., P.C.



James F. Scarpone, CFP, CPA, CVA



**SCARPONE & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

November 7, 2008

Members of the Library Board of Trustees  
Niles District Library  
Niles, Michigan

We have audited the financial statements of Niles District Library for the year ended September 30, 2008, and have issued our report thereon dated November 7, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Niles District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Niles District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts. However, the objective of our tests was not to provide an opinion of compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you per our engagement letter.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Niles District Library are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Niles District Library during the year for which there is lack of authoritative guidance

or consensus. As described in the audit adjustments section below, there were four significant transactions that if left unrecorded could have a significant effect on Niles District Library's financial reporting process.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factor assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In our judgment, two of the misstatements and adjustments we proposed (detailed below) if unrecorded could have a significant effect on Niles District Library's financial reporting process:

1). General fund receivable from bond retirement fund received in FYE 2008	\$	51,533
2). Bond retirement fund liability to general fund paid in FYE 2007 and 2008	\$	158,873
3). Budgeted transfer from Capital Projects Fund not made during FYE 2008	\$	46,150
4). Legacy Fund income under recorded for FYE 2008	\$	21,625

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated November 7, 2008.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Niles District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

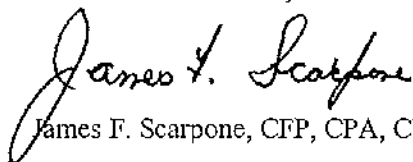
We encountered no difficulties in dealing with management in performing and completing our audit.

This letter is intended for the use of the Members of the Library Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service to you. As always, should you have any questions, please don't hesitate to contact us.

Sincerely,

SCARPONE & CO., P.C.

A handwritten signature in cursive script that reads "James F. Scarpone". The signature is written in dark ink and is positioned above the printed name.

James F. Scarpone, CFP, CPA, CVA